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BEFORE THE POSTAL RATE COMMISSION WASHINGTON, D.C. 20268-0001

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DOCKET NO. R97-1

RESPONSES OF MAGAZINE PUBLISHERS OF AMERICA WITNESS GLICK TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE (USPS/MPA-T4-1-9)

(January 22, 1998)

Pursuant to the Commission's Rules of Practice, Magazine Publishers of America hereby submits the attached responses to interrogatories propounded by USPS to witness Glick. (USPS/MPA-T4-1-9)

Respectfully submitted,

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USPS/MPA-T4-1. Please refer to page 2 of your testimony, lines 21-23. Is your unit attributable cost estimate of 1.28 cents intended to show "the test year costs of counting, rating, and billing for the Business Reply Mail (BRM) service, above and beyond the costs already attributed to First-Class Mail?" If not, please explain.

Response:

Yes, with two clarifications. First, the 1.28 cent attributable cost estimate does not take into account the four cent prebarcoding cost savings that witness Miller developed for PRM because this savings was already taken into account in the PRM rate. (Taking the prebarcoding cost savings into account, the cost for QBRM is nearly three cents less expensive than that for First-Class Mail.) For this reason, my proposed fee of two cents should be added to the 30 cent PRM rate. Second, a more precise statement would be that 1.28 cents is the difference between test year unit costs for counting, rating, billing, and delivering BRMAS-Qualified Business Reply Mail (BRM) and test year unit costs for counting, rating, billing, and delivering First-Class Mail.

USPS/MPA-T4-2. Please refer to your testimony at page 6, lines 6-7. Does your statement that the depth of sort for a barcode sorter is deeper than the depth of sort for a manual sort apply to the manual sort in the BRM operation? Please explain your answer, taking account of the fact that the manual sort in the BRM operation must finalize the BRM for delivery (so the BRM can be accounted for).

Response:

Barcode sorters (BCSs) have more separations or stackers than manual cases. In other words, **one** sort on a barcode sorter can sort mail to more separations than **one** sort in a manual case. This is what I meant in my statement that the depth of sort of a BCS is deeper than the depth of sort for a manual sort. This is true for all mail whether finalized in the BRMAS operation or not.

USPS/MPA-T4-3. Do you agree with witness Schenk's statement that Prepaid Reply Mail (PRM) "service would be advantageous for some high-volume BRMAS-qualified BRM recipients." USPS-T-27 at 13, lines 6-7. If not, please explain why not.

Response:

I think that her statement is probably true. I do, however, think that the Postal Service overstated the degree to which the service would be advantageous for BRMAS-qualified BRM recipients and therefore the volume of mail that would migrate from QBRM to PRM. In developing his volume estimate for PRM, witness Fronk assumed that QBRM recipients will migrate to PRM if it will minimize their bill from the Postal Service. In his testimony, Fronk stated, "I develop this estimate [of how much BRM will migrate to PRM] by computing the break-even BRM volume needed to make the monthly fee of PRM less expensive than the per-piece fees of BRM." (USPS-T-32 at 42-43).

In doing this, he implicitly assumed that (1) administrative costs for the PRM recipient would be no higher than the administrative costs for QBRM, and (2) the prepayment requirement will not deter migration. These assumptions are clearly incorrect and yield an upwardly biased estimate of the volume of mail that will migrate from QBRM to PRM. First, for QBRM, the Postal Service counts and bills the recipient. In PRM, the recipient will have to count mail volume, prepare postage bills, and prepare for Postal Service audits. Second, PRM recipients must prepay their postage while there is no prepayment requirement for QBRM. This requirement also makes PRM less financially advantageous.

USPS/MPA-T4-4. Do you believe that low-volume BRMAS-qualified BRM recipients would be just as likely to switch to PRM as high-volume BRMAS-qualified BRM recipients? Please explain the basis for your answer.

Response:

Everything else being equal, I believe that the PRM rate would be more advantageous for high-volume BRM recipients than for low-volume BRM recipients. Other factors, such as the magnitude of administrative costs associated with PRM and the likelihood that the BRM recipient will continue to pay for their customer's business reply mail over the long term, would also play a part in determining the likelihood that a firm would switch to PRM. Because I have no basis for understanding how low-volume and high-volume BRM recipients differ in terms of these other factors, I am unable to answer your interrogatory conclusively.

USPS/MPA-T4-5. Do you believe that high-volume BRMAS-qualified BRM recipients are more likely to be processed using the BRMAS system than low-volume BRMAS-qualified BRM recipients? Please explain the basis for your answer.

Response:

Not necessarily. The Postal Service found that there are many reasons why postal facilities don't process BRMAS-qualified mail in the BRMAS operation. Table 12 of LR-H-179 shows reasons sites provided for not using BRMAS to sort BRM. It shows that "not enough volume to justify use" was the reason provided for not using BRMAS at sites representing only 25.6 percent of volume. Other reasons provided for not using BRMAS software were "reports take too long to print out," "no automation at facility where BRM is sorted to mailer," "no BRMAS software at site," and "time constraints." Facilities accounting for nearly 34 percent of volume reported an "other" reason for not using BRMAS software.

USPS/MPA-T4-6. Please refer to your testimony at page 4, lines 15-24.

- (a) Do you agree with witness Schenk's assertion that "[if there is migration of BRMAS-qualified volumes to PRM, the BRMAS coverage factor would change" USPS-T-27 at 13, lines 7-8. If not, please explain why not.
- (b) Did witness Schenk withdraw the assertion quoted in part (a) above after responding to interrogatory MPA/USPS-T27-5c?

Response:

- a. No. If 10 percent of BRMAS-qualified volume migrated to PRM, and the coverage factor for the migrated mail was 14.24 percent, then the BRMAS coverage factor would not change. I do agree with the statement that if there is migration of BRMAS-qualified volumes to PRM, the BRMAS coverage factor **could** change.
- b. No.

USPS/MPA-T4-7. Please refer to your testimony at page 7, lines 6 to 8.

- (a) Please confirm that your use of "Base Year mail flows" includes the use of the current BRMAS coverage factor of 14.24 percent? If you do not confirm, please explain why not.
- (b) If you do confirm part (a), please confirm that your application of the base year BRMAS coverage factor to the test year assumes that only 14.24 percent of the BRMAS-qualified BRM that switches to PRM would currently be processed using the BRMAS system. If you do not confirm, please explain why not.

Response:

- a. Confirmed.
- b. Not confirmed. From a mathematical perspective, my application of the base year BRMAS coverage factor to the test year assumes that one of two things occurs: (1) there is no migration from QBRM to PRM or (2) 14.24 percent of the BRMAS-qualified BRM that switches to PRM is currently processed in the BRMAS operation. From a common sense, analytical perspective, it is reasonable to believe that test year mail flows, in the absence of an unbiased estimate of the volume of QBRM that will migrate to PRM in the test year (See my response to USPS/MPA-T4-3), will be similar to base year mail flows.

USPS/MPA-T4-8. Please confirm that the First-Class Mail that avoids carrier delivery costs (such as mail addressed to a post office box or a caller service customer) is not limited to BRMAS-qualified BRM. If you do not confirm, please explain why not.

Response:

Confirmed. Exhibit MPA 4-2 shows that 34 percent of First-Class Mail avoids carrier delivery costs. Please note that my estimate of the delivery cost avoidance takes this point into account.

USPS/MPA-T4-9. Referring to your Exhibit MPA 4-1, please confirm that the 6.33 cent weighted cost per piece does not include any delivery costs. If you do not confirm, please explain why not.

Response:

Confirmed. With the exceptions noted in my testimony, the 6.33 cents was calculated in the same way that witness Schenk calculated the \$0.0785 weighted cost per piece figure (direct and indirect) in Exhibit USPS-27C.

DECLARATION

I, Sander Glick, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

fander Hick Sander Glick

Date: 1/22/98

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.

lames R. Cregan

Washington, D.C. January 22, 1998